

Message Text

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ACTION EB-07

INFO OCT-01 EA-07 ISO-00 AGRE-00 CIAE-00 COME-00
INR-07 LAB-04 NSAE-00 EPG-02 SP-02 STR-04 TRSE-00
FRB-03 OMB-01 USIE-00 L-03 SSO-00 INRE-00 STRE-00
IO-13 /054 W

-----171032Z 110932 /14

O 170927Z JUN 77

FM AMCONGEN HONG KONG

TO USMISSION GENEVA IMMEDIATE

INFO SECSTATE WASHDC IMMEDIATE 5341

C O N F I D E N T I A L HONG KONG 7018

PASS STR FOR AMB. STRAUSS

E.O. 11652: GDS

TAGS: ETRD, HK

SUBJ: HK-US TEXTILE NEGOTIATIONS

REF: GENEVA 4735

1. ACTING DIRECTOR HONG KONG DEPARTMENT OF COMMERCE AND
INDUSTRY CALLED ME IN TODAY (JUNE 17) TO DISUCSS HK-U.S.
TEXTILE NEGOTIATIONS. HE BEGAN BY SAYING THAT HE UNDER-
STOOD FROM WASHINGTON THAT U.S. GOVERNMENT OFFICIALS (I.E.,
JULIUS KATZ AND CHARLES ANGEVINE) WERE UNDER THE IMPRESSION
THAT AN AGREEMENT AD REFERENDUM HAD BEEN REACHED IN GENEVA.
HE SAID THAT WAS NOT THE CASE. THE INDIVIDUALS ON THE
SCENE HAD ARRIVED AT AN INFORMAL UNDERSTANDING, THE DETAILS
OF WHICH HK GOVERNMENT BECAME AWARE OF ONLY AFTER INDUSTRY
ADVISERS HAD RETURNED TO HONG KONG. AFTER DISCUSSION WITHIN
THE GOVERNMENT AND WITH THE INDUSTRY HERE, THE HONG KONG
GOVERNMENT CONCLUDED THAT "CERTAIN CLARIFICATIONS" SHOULD
BE SOUGHT. HE THEN READ FROM THE FOLLOWING "SPEAKING
NOTE:"

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2. BEGIN TEXT. WE HAVE NOTED WITH INTEREST THE
CONTENTS OF THE USIS SHEET "ECONOMIC AFFAIRS PERSPEC-
TIVES" DATED 9 JUNE 1977 (CONGEN NOTE: EXTRACT
FROM WIRELESS FILE JUNE 8, 1977, ITEM EPF-35). THIS
REPORTED A SPEECH BY LABOUR SECRETARY RAY MARSHALL
TO THE INTERNATIONAL LADIES' GARMENT WORKERS UNION
AND OPENED WITH THE WORDS:

-- "A TOP CARTER ADMINISTRATION OFFICIAL HAS INDICATED THAT THE UNITED STATES WILL NOT SEEK TO SLOW THE INTERNATIONALLY AGREED RATE OF EXPANSION OF ITS TEXTILE IMPORTS--DESPITE THE SLOWER RATE OF GROWTH OF ITS OWN TEXTILE INDUSTRY."

3. THE REPORT LATER NOTED THAT THE I.L.G.W.U. WAS SAID TO BE ONE OF A NUMBER OF TEXTILE UNIONS AND FIRMS THAT HAD BEEN PRESSING THE CARTER ADMINISTRATION FOR ASSURANCES THAT THE UNITED STATES WOULD INSIST THAT ANY EXTENSION OF THE MFA WOULD CUT THE GROWTH CLAUSE TO ALLOW ANNUAL IMPORT INCREASES OF NO MORE THAN THREE PERCENT. THE REPORT WENT ON

-- "THE SOURCES SAY MR. MARSHALL'S REMARKS REFLECT THE 'FIRM DECISION' OF THE UNITED STATES THAT TO CUT THE CLAUSE IN HALF TO MATCH THE GROWTH RATE OF THE DOMESTIC INDUSTRY WOULD NOT BE IN THE U.S. NATIONAL INTEREST."

4. WE ASSUME THAT, IN VIEW OF THE ORIGIN AND NATURE OF THE DOCUMENT, THE SOURCES QUOTED ARE AUTHORITY. THIS BEING THE CASE, WE ARE CONFUSED OVER THE POSITION ADOPTED BY THE U.S. NEGOTIATORS CURRENTLY ENGAGED IN GENEVA WITH HONG KONG REPRESENTATIVES IN CONSULTATIONS ON A FUTURE BILATERAL TEXTILES AGREEMENT TO REPLACE THE ONE WHICH EXPIRES ON 30 SEPTEMBER 1977. THEY HAVE MOST FORCEFULLY SOUGHT TERMS WHICH APPEAR INCONSISTENT WITH THE U.S. POLICY QUOTED ABOVE. FOR EXAMPLE, THEY HAVE PRESENTED

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AS AN ALTERNATIVE TO "UNMITIGATED DISASTER FOR HONG KONG INTERESTS" THE ACCEPTANCE BY US OF A FIVE-YEAR RESTRAINT AGREEMENT, TO BE CONCLUDED UNDER ARTICLE 4 OF THE ARRANGEMENT REGARDING INTERNATIONAL TRADE IN TEXTILES, WHICH WOULD INVOLVE NO GROWTH IN ANY OF THE FIRST YEAR LIMITS, AGGREGATE, GROUP OR SPECIFIC, AND ONLY 6 PERCENT AGGREGATE GROWTH EACH YEAR THEREAFTER.

5. PRIOR TO SEEING THE USIS REPORT, WE HAD ASSUMED THIS OPTION REFLECTED THE AGREED POLICY OF THE UNITED STATES GOVERNMENT. IN RESPONSE TO A REQUEST FOR AN EXPLANATION OF THE APPARENT INCONSISTENCY, THE U.S. CHIEF NEGOTIATOR IN GENEVA RESPONDED FORMALLY ON 15 JUNE THAT:

(A) MR. MARSHALL WAS TRYING TO SAY TO THE INTERNATIONAL LADIES' GARMENT WORKERS UNION THAT THE U.S. POLICY ON THE MFA REMAINED UNCHANGED; AND
(B) HE (THE CHIEF NEGOTIATOR) WAS NOT SEEKING AN

AGREEMENT INCONSISTENT WITH THE ARRANGEMENT REGARD-
ING INTERNATIONAL TRADE IN TEXTILES.

6. HOWEVER, ARTICLE 4.3 OF THE ARRANGEMENT REGARD-
ING INTERNATIONAL TRADE IN TEXTILES READS, IN PART, AS
FOLLOWS: "BILATERAL AGREEMENTS MAINTAINED UNDER THIS
ARTICLE SHALL, ON OVERALL TERMS, INCLUDING BASE LEVELS
AND GROWTH RATES, BE MORE LIBERAL THAN MEASURES PRO-
VIDED FOR IN ARTICLE 3 OF THIS ARRANGEMENT". THE
GROWTH PROVISIONS IN RESPECT OF ARTICLE 3 MEASURES
PROVIDE FOR A MINIMUM OF GENERALLY NOT LESS THAN 6
PERCENT GROWTH WHERE THERE IS RENEWAL OR EXTENSION.
THIS IS IN RESPECT OF SITUATIONS WHERE MARKET DIS-
RUPTION OR ACTUAL THREAT THEREOF HAS BEEN SHOWN TO
EXIST. THE ARTICLE 4 AGREEMENT UNDER NEGOTIATION, BY
CONTRAST, IS "TO ELIMINATE REAL RISK OF MARKET DIS-
RUPTION."

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7. IN THESE CIRCUMSTANCES IT WOULD BE APPRECIATED IF
YOU COULD OBTAIN FROM WASHINGTON AN EXPLANATION OF
THE APPARENT INCONSISTENCY IN THE U.S. POLICY
DESCRIBED IN THE USIS RELEASE AND THE POSITION BEING
ADOPTED BY YOUR NEGOTIATORS IN GENEVA. THE FACT
THAT THE USIS RELEASE IS PUBLIC KNOWLEDGE MEANS THAT
WE ARE FINDING IT INCREASINGLY DIFFICULT TO JUSTIFY
TO OUR INDUSTRY ACCEPTANCE OF TERMS OF THE KIND
DEMANDED IN GENEVA.

8. THIS MATTER IS VIEWED, AS I AM SURE YOU WILL
READILY APPRECIATE, AS ONE OF MAJOR IMPORTANCE TO
HONG KONG. YOU ARE AWARE OF THE ROLE OF THE TEX-
TILES INDUSTRY IN OUR ECONOMY AND ITS IMPORTANCE TO
THE FUTURE WELL-BEING OF OUR SOCIETY. AN EARLY
RESPONSE WOULD BE APPRECIATED. END TEXT.

9. DORWARD ASSURED ME THAT HIS COMMENTS, INCLUDING
THE CONTENTS OF THE SPEAKING NOTE, HAD BEEN FULLY
CLEARED WITH THE HONG KONG GOVERNMENT UP TO AND
INCLUDING THE GOVERNOR WHO HAD BEEN BRIEFED THIS
MORNING. HE CONCLUDED BY SAYING THAT IF THE U.S.
GOVERNMENT THOUGHT IT WOULD BE USEFUL, HE WAS PRE-
PARED TO GO TO WASHINGTON NEXT WEEK.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TEXTILES, NEGOTIATIONS
Control Number: n/a
Copy: SINGLE
Sent Date: 17-Jun-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977HONGK07018
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770216-0983
Format: TEL
From: HONG KONG
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770646/aaaabojc.tel
Line Count: 165
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 670afc7a-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 77 GENEVA 4735
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05-Jan-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2115629
Secure: OPEN
Status: NATIVE
Subject: HK-US TEXTILE NEGOTIATIONS
TAGS: ETRD, HK, US
To: GENEVA
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/670afc7a-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009